The Federal Reserve's Dual Mandate: Statutes, Theory, Evidence, and Practice

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Abstract

The Federal Open Market Committee's amended 2025 Statement on Longer-Run Goals and Monetary Policy Strategy rightfully abandons the flexible average inflation targeting framework that was introduced in 2020 and followed quickly by the inflationary surge that still plagues us today. On its surface, the amended 2025 Statement, like the original 2012 Consensus Statement, interprets the Federal Reserve's statutory dual mandate in light of the natural rate hypothesis and the New Keynesian "divine coincidence." Both statements set a quantitative objective for inflation but not unemployment, acknowledge that the goals of price stability and maximum employment are generally complementary, and prescribe a balanced approach in cases where the divine coincidence breaks down. The deeper details that distinguish the 2025 and 2012 Statements suggest, however, that FOMC members continue to interpret the Phillips curve as describing a trade-off between inflation and unemployment that can be exploited by the Fed as it pursues its dual mandate. In the future as in the past, this theoretically flawed and empirically discredited view of the Phillips curve and the dual mandate leaves the Fed prone to policy errors that produce higher and more volatile rates of inflation *and* unemployment. Returning in full to the principles outlined in 2012 is the easiest way for the FOMC to clean up after the mistakes of recent years and prolong the Fed's useful lifetime.

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1 Statutes

The Federal Reserve (Fed) receives its dual mandate through a pair of statutes. First, the Federal Reserve Reform Act of 1977 (Public Law 95-188), an amendment to the original Federal Reserve Act of 1913, directs the Fed to conduct monetary policy "so as to promote effectively the goals of maximum employment, stable prices, and moderate long-term interest rates." Second, the Full Employment and Balanced Growth Act of 1978 (Public Law 95-523), known as the "Humphrey-Hawkins Act," singles out "reasonable price stability" and "full employment and production" as national economic priorities and thereby sets them, more specifically, as the Fed's top two monetary policy goals. Although members of Congress have periodically attempted to streamline the Fed's mandate to focus on price stability alone, most recently with the Price Stability Act of 2025 (H.R. 5396), proposing a further amendment to the Federal Reserve Act, these efforts have always failed. The dual mandate lives on.[1]

In fact, the dual mandate will likely stay with us – and the Fed – forever, since it suits the major players so well. If the Fed creates too much inflation, it can always appeal to the dual mandate to claim it was pursuing maximum employment instead. If the Fed causes a recession, it can always appeal to the dual mandate to assert that it needed to reduce inflation. And in the unfortunate coincidence of an inflationary recession, Federal Open Market Committee (FOMC) members can always argue that, had it not been for their wise and timely actions, the outcome would have been even more inflation and less employment. In the meantime, the President and members of Congress can sit back and criticize the Fed no matter what it does: for focusing too much on price stability instead of maximum employment or vice versa. Forty-five years ago, Kane's (1980) theory of "the Fed as scapegoat" led to the conclusion that "the more things change the more they stay the same." That conclusion still holds true today.

[1] Steelman (2011) traces the intellectual and legislative origins of the Fed's concern for maximum employment as well as price stability back to debates over the Employment Act of 1946 (Public Law 79-304), further underscoring the durability and longevity of the ideas behind the dual mandate.

But while the statutes remain unchanged, the Fed's own interpretation of the dual mandate has shifted over time in ways that have significantly improved or degraded the quality of its policymaking strategy. Ireland (2025) describes how these shifts in perspective reflect innovations in monetary theory from the early 1960s through the present as well as the historical experience that provided evidence to drive those theoretical innovations.

2 Theories and Evidence

In 1960, Samuelson and Solow (1960, Fig.2, p.192) interpreted the Phillips curve – the inverse statistical relationship between inflation and unemployment often found in the data – as offering monetary policymakers "the menu of choice between different degrees of unemployment and price stability." One can easily imagine superimposing on their graph a set of indifference curves over the same two variables – inflation and unemployment – reflecting the objectives codified by the dual mandate. The graph would then illustrate how, through skillful fine-tuning, policymakers could achieve exactly the right mix of price stability and maximum employment by finding the point where the terms of the trade-off in social preferences (the slope of the indifference curve) coincides with the terms of the trade-off in the aggregate economy (the slope of the Phillips curve). Likewise, fine-tuning could be used to adjust the appropriate mix of inflation and employment as economic circumstances continually change.

This view of the Phillips curve and the perspective it provides on the dual mandate were discredited, beginning in the late 1960s and continuing throughout the 1970s, by a series of developments, both theoretical and empirical. In theory, the natural rate hypothesis and its implications, derived by Phelps (1967), Friedman (1968), Lucas (1972), and Kydland and Prescott (1977), emphasize how the statistical Phillips curve can be destabilized by shifts in inflationary expectations so as to render any exploitable trade-off between inflation and unemployment highly transitory – if existent at all. Meanwhile, the Fed's own "stop-go" monetary policies, described by Hetzel (2022, Ch.18), consisting of alternating phases

of overly restrictive and expansionary policy as FOMC members unskillfully juggled the two sides of their dual mandate, helped produce a toxic mix of high inflation *and* high unemployment. With reference to theories and models featuring an exploitable Phillips curve, Lucas and Sargent (1978, p.57) aptly summarize this historical experience as an "econometric failure on a grand scale."

Ireland (2025) traces out in more detail how, building on the natural rate hypothesis, further theoretical advances led to the development, during the 1980s, of real business cycle models and, during the 1990s, their New Keynesian extensions.[2] At the heart of the New Keynesian model, now presented in survey papers like Clarida, Galí, and Gertler (1999) and Ireland (2008) and textbooks including Woodford (2003) and Galí (2015), lies the New Keynesian Phillips curve

$$\pi_t = \beta E_t \pi_{t+1} + \kappa(y_t - y_t^*), \tag{1}$$

linking the inflation rate π_t to its own expected future value $E_t\pi_{t+1}$ and to a welfare-theoretiic measure of the output gap: the difference between the actual level of output y_t and the efficient level y_t^* that would prevail in the absence of nominal rigidities, that is, in the model's real business cycle core. In (1), β and κ are both positive parameters, with values pinned down by the more basic features of tastes and technologies, including (in determining the Phillips curve slope κ) the assumed frequency with which individual firms adjust their nominal prices.

Importantly, all variables in (1) are expressed in percentage-point deviations from their steady-state or average values, so that permanent increases in inflation have no effect on the output gap. Also reflecting the natural rate hypothesis, the presence of expected future

[2]The real business cycle models of Kydland and Prescott (1982) and Long and Plosser (1983) show how business cycle fluctuations resembling those seen in the post-World War II US economy can be driven entirely by technology shocks to total factor productivity. By implying that there is no role for monetary policy in driving the business cycle, these models also deny the existence of even a statistical Phillips curve relationship between inflation and unemployment. Early New Keynesian models, developed by Hairault and Portier (1993), Leeper and Sims (1994), Kimball (1995), Yun (1996), Goodfriend and King (1997), Ireland (1997), Rotemberg and Woodford (1997), McCallum and Nelson (1999), and Kim (2000), superimpose nominal price rigidities on a real business cycle core to account for the statistical Phillips curve and provide a larger role for monetary policy in adding to or ameliorating aggregate fluctuations.

inflation on the right-hand side of (1) weakens the exploitable trade-off between inflation and output (and hence employment) implied by Samuelson and Solow's earlier Phillips curve variant. But most important of all, (1) implies that by conducting monetary policy to stabilize both actual and expected inflation, so that $\pi_t = E_t\pi_{t+1} = 0$, the central bank will also allow output to fluctuate efficiently, in line with the natural rate, so that the output gap $y_t - y_t^*$ is stabilized as well. Blanchard and Galí (2007) call this striking implication the New Keynesian "divine coincidence." Within the New Keynesian framework, the two sides of the Fed's dual mandate – price stability and maximum employment – appear as complementary, not competing, objectives.

Clarida, Galí, and Gertler (1999) observe that if the Kew Keynesian Phillips curve includes an additional cost-push shock u_t, so that (1) expands to

$$\pi_t = \beta E_t\pi_{t+1} + \kappa(y_t - y_t^*) + u_t, \tag{2}$$

a policy trade-off between inflation and output gap stabilization will reemerge. But this trade-off is relevant only to the extent that aggregate shocks manifest themselves through the additional term u_t in (2), affecting firms' desired output prices without simultaneously affecting the efficient level of output. Other shocks, including both the real business cycle model's shock to total factor productivity and other New Keynesian shocks to aggregate demand, impact on y_t^* instead and do not require a painful choice between lower inflation and a smaller output gap.

Thus, old and new interpretations of the Phillips curve provide very different perspectives on the dual mandate. Are price stability and maximum employment determined largely by a trade-off that monetary policymakers must continuously manage? Or are these goals mostly complementary, so that by focusing on stabilizing prices first, the central bank can allow the market economy to respond efficiently to most shocks? Clear answers – "no" to the first question and "yes" to the second – provided by both theory and historical experience lead

Bernanke, Laubach, Mishkin, and Posen (1999) to advocate strongly for inflation targeting as best practice for monetary policymaking. Changes in the Fed's own monetary policy strategy, by contrast, reveal shifting answers to these questions – shifting, unfortunately, from right to wrong and from best to worst.

3 Best Practice: The Original 2012 Strategy Statement

As Lacker (2020) recounts, FOMC members discussed the possibility of publicly adopting a flexible inflation targeting strategy periodically throughout the 1990s and 2000s.[3] They did not succeed in doing so, however, until the release of their 2012 Statement on Longer-Run Goals and Monetary Policy Strategy (Federal Open Market Committee 2012; known internally as the "Consensus Statement" and referred to hereafter as the "Original 2012 Statement" or simply the "2012 Statement"). In Lacker's view, the FOMC's delay in committing to an inflation target reflected partly its members' desire to preserve a more discretionary approach to monetary policymaking – helping to confirm Kane's (1980) much earlier observation about how things always "remain the same." But, Lacker explains, the Committee's hesitation also reflected worries, based on the outdated interpretation of the statutory dual mandate as describing a policy trade-off, that public commitment to an inflation target would be seen as elevating stable prices over the competing goal of maximum employment.

In any case, through the release of the Original 2012 Statement, the FOMC finally overcame both sets of concerns and, as Ireland (2025) discusses in greater detail, acknowledged the lessons learned from the policy mistakes of the 1970s and the development of natural rate, real business cycle, New Keynesian theories in the 1970s, 1980s, and 1990s. Consistent with the natural rate hypothesis, the 2012 Statement recognizes that "the inflation rate over the longer run is primarily determined by monetary policy, and hence the Committee has

[3]Svensson (1999, p.338) distinguishes between "flexible" and "strict" inflation targeting by specifying that, under flexible inflation targeting, a central bank takes actions that bring inflation back to target gradually, rather than immediately, following any deviation, exhibiting concern for stability in output and employment as well as prices. By this definition, the additional adjective "flexible" is what keeps "inflation targeting" consistent with the Fed's dual mandate.

the ability to specify a longer-run goal for inflation." The 2012 Statement goes on to set a specific, numerical target for longer-run "inflation at the rate of 2 percent, as measured by the annual change in the price index for personal consumption expenditures."

Also consistent with the natural rate hypothesis, the 2012 Statement admits that "the maximum level of employment is largely determined by nonmonetary factors that affect the structure and dynamics of the labor market." Noting as well that "these factors may change over time and may not be directly measurable," the 2012 Statement explains that "it would not be appropriate to specify a fixed goal for employment; rather, the Committee's policy decisions must be informed by assessments of the maximum level of employment, recognizing that such assessments are necessarily uncertain and subject to revision."

Reflecting the tensions that Lacker (2020) finds in earlier FOMC deliberations and debates over flexible inflation targeting, after setting an explicit numerical target for long-run inflation but declining to do the same for employment, the 2012 Statement emphasizes that, in pursuing its statutory dual mandate, "the Committee seeks to mitigate deviations of inflation from its longer-run goal and deviations of employment from the Committee's assessments of its maximum level." Importantly, however, the 2012 Statement quickly notes that "these objectives are generally complementary," just as depicted by the New Keynesian Phillips curve (1) with its "divine coincidence" implication.

Finally, the Original 2012 Statement allows for an inflation-employment trade-off to reemerge when the economy is hit by cost-push shocks of the kind that are captured by the additional term u_t in the extended New Keynesian Phillips curve (2). The 2012 Statement concludes, however, by prescribing a "balanced approach" to policymaking "under circumstances in which the Committee judges" that its inflation and employment objectives "are not complementary." This balanced approach guards against the over-accommodation of supply-side shocks that Ireland (1999), with an extension of Kydland and Prescott's (1977) model, uses to explain the coincidence of high inflation and unemployment during the 1970s.

Ireland (2025) goes on to describe in more detail how concerns over the zero lower interest

rate bound and the persistence of sluggish economic growth and inflation in the aftermath of the 2008-9 financial crisis and recession led to a series of modifications that culminated in a heavily revised 2020 Statement on Longer-Run Goals and Monetary Policy Strategy (Federal Open Market Committee 2020; referred to hereafter as the "Amended 2020 Statement" or simply the "2020 Statement"). In both theory and practice, and both *ex ante* and in retrospect, the Amended 2020 Statement appears as a damaging step backwards.

4 Worst Practice: The Amended 2020 Statement

In 2019, the Fed conducted a major strategic review, intended, as Powell (2020, pp.1,6) recalls, to "assess the monetary policy strategy, tools, and communications that would best foster achievement of our congressionally assigned goals of maximum employment and price stability over the years ahead," particularly in light of the "persistent undershoot of inflation from our 2% longer-run objective." Behind the problem of persistent low inflation lie the technical challenges posed by the zero lower interest rate bound. Again in Powell's words (2020, p.10): "By reducing our scope to support the economy by cutting interest rates, the lower bound increases downward risks to employment and inflation."

As Ireland (2025) points out, macroeconomic theory had already provided a clear solution to the problem of the zero lower bound, which the FOMC could have taken and used right off the shelf, to shape the results of its 2019 review. In particular, New Keynesian models confirm Powell's assertion that in a low-inflation environment, the long-run neutral setting for the federal funds rate target will also be low, leaving less room for policy easing through interest rate cuts during cyclical downturns. New Keynesian models also imply, however, that this difficulty can be overcome by asking the central bank to target the level of prices instead of inflation as their growth rate. Svensson (2001), Eggertsson and Woodford (2003), and Mertens and Williams (2020) provide statements of this result, with the third reference being perhaps the most significant, despite its later publication date, because one of its authors was (and still is) New York Federal Reserve Bank President and a permanent voting

member of the FOMC.

Compared to inflation targeting, price-level targeting provides two advantages. First, by bringing the level of prices back up to a multi-year target path, a price-level target prevents a series of modest, but single-sided, deviations of inflation below target, like those experienced during and after the 2008-09 recession, from cumulating into large gaps between the actual level of prices and the level of prices consumers and businesses expected when making long-term economic and financial plans. Second, by observing those same dynamics, consumers and businesses will come to expect that periods of low inflation, as seen during a recession, will be followed by periods of higher inflation. The resulting increase in expected inflation then works, during a cyclical downturn, even when nominal interest rates are constrained by the zero lower bound, to decrease real rates of interest and thereby provide additional monetary stimulus exactly when it is needed most.

Mertens and Williams (2020) show that these desirable features of a price-level targeting scheme are shared by two closely-related monetary policy strategies. "Make-up" strategies promise to deliver periods of temporarily higher inflation following periods of low inflation and vice versa, while retaining most of the other features of a flexible inflation targeting framework. And "average inflation targeting" strategies, while also retaining other key elements of flexible inflation targeting, replace an explicit numerical objective for annual inflation with one that applies to inflation when averaged over a period of several years.

In fact, the Fed's 2019 strategic review led to the heavily-revised Amended 2020 Statement that, at first glance at least, replaces flexible inflation targeting with flexible average inflation targeting as a *bona fide* level-targeting framework. After observing that "the federal funds rate is likely to be constrained by its effective lower bound more frequently than in the past," the 2020 Statement reaffirms the FOMC's two-percent inflation objective. It goes on to explain, however, that "in order to anchor longer-term inflation expectations at this level, the Committee seeks to achieve inflation that averages 2 percent over time, and therefore judges that, following periods when inflation has been running persistently below 2 percent,

appropriate monetary policy will likely aim to achieve inflation moderately above 2 percent for some time."

A true price-level or average inflation targeting strategy would, of course, also specify that "when inflation has been running persistently *above* 2 percent, appropriate monetary policy will likely aim to achieve inflation moderately *below* 2 percent for some time." Does the 2020 Statement omit these words by oversight or design? Beckworth and Horan (2025) argue persuasively that the asymmetry was intended, citing speeches by Federal Reserve Vice Chair Richard Clarida, Federal Reserve Governor Lael Brainard, and Federal Reserve Bank Presidents Charles Evans and John Williams as evidence. Thus, through this first element of asymmetry alone, the FOMC's own version of flexible average inflation targeting was heavily influenced by the post-2008 experience and therefore heavily biased towards the creation of higher inflation.

Several other amendments in the 2020 Statement reinforce this inflationary bias. First, while the Original 2012 Statement prescribes a monetary policy response to "deviations of employment from the Committee's assessments of its maximum level," the Amended 2020 Statement calls for a response only to employment "shortfalls." This change in language reinforces the Fed's commitment to deliver additional monetary stimulus during cyclical downturns, but in doing so also abandons the preemptive approach taken under flexible inflation targeting to remove monetary stimulus before and not after inflation rises above target.

Second, the 2020 Statement describes the Fed's maximum employment objective, but not the inflation objective, as a "broad based and inclusive goal." Powell (2020, p.10) explains that "this change reflects our appreciation for the benefits of a strong labor market, particularly for many low- and moderate-income communities." Only later, after high inflation had already emerged, did Powell (2022, p.1) also concede that "the burdens of high inflation fall heaviest on those who are least able to bear them."

Third, finally, and perhaps most puzzling of all, the 2020 Statement drops reference to

the "balanced approach" to policymaking in circumstances where the Fed's inflation and employment objectives are not complementary. Instead, the 2020 Statement indicates, quite cryptically, that in those circumstances the Committee "takes into account the employment shortfalls and inflation deviations and the potentially different time horizons over which employment and inflation are projected to return to levels judged consistent with its mandate."

To be fair, no one could have foreseen the unprecedented and astonishing chain of events that triggered the recession of 2020 and ultimately led to the burst of high inflation that followed. In retrospect, though, it seems equally fair to say that the timing of the FOMC's adoption of its particular brand of flexible average inflation targeting could not have been worse. The strategy's inbuilt biases titled the Fed's response to aggregate demand disturbances towards the creation of higher inflation. Worse still, its abandonment of the "balanced" response to aggregate supply shocks left backward-looking policymakers highly vulnerable to over accommodation. While the precise details could not have been foreseen, the final outcome – what Levy (2024) rightly calls "the biggest monetary policy error and the highest inflation since the 1970s" – appears completely unsurprising. Also unsurprising – but again reminiscent of Kane's (1980) adage that "the more things change the more they remain the same" — was the Fed's own response to this policy error: a disappointing failure to acknowledge its own role in generating 2021's inflation surge and a corresponding failure to fully adjust its strategy to guard against similar mistakes in the future.

5 Current Practice: The Amended 2025 Statement

Powell (2025) describes the key questions addressed by the Federal Reserve's 2025 strategic review and outlines the further revisions made to the Statement on Longer-Run Goals and Monetary Policy Strategy (Federal Open Market Committee 2025; referred to hereafter as the "Amended 2025 Statement" or simply the "2025 Statement") at the conclusion of this most recent review. Instead of focusing on the flaws of the 2020 framework and identifying ways that it might have been modified so as to eliminate its systematic inflationary biases – a task

left to outsiders such as Beckworth and Horan (2025) – the FOMC in 2025 simply abandoned flexible average inflation targeting and returned in part to the principles articulated in the Original 2012 Statement.

In particular, Powell's (2025, p.8) own account of the events during and since 2020 painstakingly avoids any acknowledgment of the Fed's own role in generating the high inflation that followed, but accepts much of the credit for inflation's return to target, which to this day remains incomplete:

> In the event, rather than low inflation and the ELB, the post-pandemic reopening brought the highest inflation in 40 years to economies around the world. Like most other central banks and private-sector analysts, through year-end 2021 we thought that inflation would subside quickly without a sharp tightening in our policy stance .... When it because clear that this was not the case, we responded forcefully, raising our policy rate by 5.25 percentage points over 16 months. That action, combined with the unwinding of pandemic supply disruptions, contributed to inflation moving much closer to our target without the painful rise in unemployment that has accompanied previous efforts to counter high inflation.

In evaluating this statement, it is worth noting that year-over-year growth in the M2 monetary aggregate reached a post-World War II peak above 25 percent in February 2021 and, at 12 percent, was still running at rates comparable to those experienced during the Great Inflation of the 1970s in December 2021.

If the post-2020 inflationary surge cannot be attributed even in part to the flaws in the Amended 2020 Statement, then where does the blame lie? Powell (2025, p.9) goes on to explain

> During the [2025] review, we discussed how the 2020 statement's focus on the ELB [effective lower interest rate bound] may have complicated communications about our response to high inflation. We concluded that the emphasis on an

> overly specific set of economic conditions may have led to some confusion and, as a result, we have made several important changes to the consensus statement to reflect that insight.

Evidently, the key "insight" drawn by the FOMC from its 2025 strategic review was not that the flexible average inflation targeting framework outlined in the 2020 Amended Statement led the FOMC to choose a highly inflationary policy, but instead that there was "some confusion . . . about complicated communications about our response to high inflation" generated by forces related to the "post-pandemic reopening" and therefore somehow completely beyond the Fed's control. Though the speech is for the most part uninformative, at times it reads like a comedy sketch mocking governmental incompetence and unaccountability.

But even if these vague lessons are all that has been learned from the post-2020 debacle, it certainly seems for the best that the Amended 2025 Statement jettisons most of the changes made in 2020. The 2025 Statement removes specific reference to the zero lower interest rate bound, indicating only that the revised "strategy is designed to promote maximum employment and stable prices across a broad range of economic conditions." It likewise removes all mention of any make-up strategy for inflation, and simply reaffirms the 2 percent longer-run target for annual inflation. It eliminates language prescribing a monetary policy response to "shortfalls" of employment below the maximum sustainable level, and it restores the promise of a "balanced approach" to policymaking in cases where the New Keynesian divine coincidence breaks down.

To make these salutary changes, why not just revert in full to the Original 2012 Strategy Statement? The other details that set the Amended 2025 Statement apart suggest an inability to let go of the outdated and discredited view of an exploitable Phillips curve tradeoff and an unwillingness to learn from either the theoretical advances or the painful policy mistakes of the past half century. These details are small but revealing.

First, whereas the Original 2012 Statement sets the 2 percent inflation target before discussing the goal of maximum employment, the Amended 2025 Statement places maximum

employment first. Second and related, while the 2025 Statement acknowledges that price stability "supports the well-being of all Americans," it also asserts that maximum employment "fosters broad-based economic opportunities *and* benefits for all Americans" (emphasis added). The view in 2025, consistently elevating objectives for employment over those for inflation, seems closer that supported by Samuelson and Solow's (1960) interpretation of the Phillips curve than with the New Keynesian update. It brings back to mind – but contradicts – McCallum's (1995) response to Kydland and Prescott's (1977) analysis. Kydland and Prescott (1977) trace the origins of the Fed's inflationary bias back to policymakers' desire to push unemployment below its natural rate by exploiting the Phillips curve. McCallum (1995) suggests that this inflationary bias can be removed if policymakers "just . . . do it," that is, simply recognize the futility of those actions and focus on stabilizing inflation instead. The 2025 Statement pushes in the opposite direction, implicitly rejecting McCallum's simple solution.

A third and final gateway back to the outdated view of an exploitable Phillips curve appears at the conclusion of the Amended 2025 Statement when, even after re-introducing the "balanced approach" to any supply-driven trade-off between low inflation and high employment, the "Committee recognizes that employment may at times run above real-time assessments of maximum employment without necessarily creating risks to price stability." Powell (2025, p.11) describes this language as stating "more precisely" the idea behind the policy response to employment "shortfalls" prescribed by the 2020 Statement. But wouldn't have been more useful to "state more precisely" how this view of the Phillips curve led, in fact, to the post-2020 inflationary surge?

It is certainly understandable that the FOMC would not want to dwell too much on the failures of flexible average inflation targeting. But, even so, wouldn't it have been far better and much cleaner to have simply declared that, in light of the diminished importance of the zero lower interest rate bound in an environment characterized by persistently above-target inflation, the Committee was returning in full to the principles and practices outlined in the

Original 2012 Statement?

6 A Continuing Record of Failure and an Easy Way Out

Milton Friedman (1984, p.30) summarizes the Federal Reserve's record of failure from its founding in 1914 through the mid-1980s and concludes pessimistically:

> To summarize this 69-year record: two major wartime inflations; two major depressions; a banking panic far more severe than was ever experienced before the Federal Reserve System was established; a succession of booms and recessions; a post-World War II roller coaster marked by accelerating inflation and terminating in four years of unusual instability – the whole relieved by relative stability and prosperity during the two decades after the Korean War.
>
> Granted, the Fed alone is not to blame for this dismal record. Yet it is – to put it mildly – hardly an impressive performance compared either to our nation's experience before the Federal Reserve System was established or to the record of some other nations with a different monetary structure. It is time for a change.

Selgin, Lastrapes, and White (2012) extend Friedman's narrative account through the 2008-09 financial crisis and its aftermath and supplement it as well with their own statistical analyses. They conclude (p.592) likewise:

> Available research does not support the view that the Federal Reserve System has lived up to its original promise. Early in its career, it presided over both the most severe inflation and the most severe (demand-induced) deflations in post-Civil War US history. Since then, it has tended to err on the side of inflation, allowing the purchasing power of the US dollar to deteriorate considerably. That deterioration has not been compensated for, to any substantial degree, by enhanced stability of real output. . . . Although a genuine improvement did occur

> during the sub-period known as the "Great Moderation," that improvement, besides having been temporary, appears to have been due mainly to factors other than improved monetary policy. ...
>
> The Fed's record suggests that its problems go well beyond those of having lacked good administrators, and that the only real hope for a better monetary system lies in regime change.

Now add to these lists of failures the adoption of the deeply-flawed flexible average inflation targeting framework in 2020 and the inflationary surge that quickly followed. Is there any reasonable alternative but to finally "end the Fed?"

Contemporary macroeconomic theory makes clear that credible commitment to a genuine price-level targeting framework would allow the Fed to implement best practice monetary policy both near to and away from the zero lower interest rate bound. Post-2020 experience even more strongly suggests, however, that FOMC members will never have the fortitude to follow periods when inflation runs above 2 percent with policy actions that aim to achieve inflation below 2 percent, so as to bring the price level back down to a multi-year target path. Probably, the most charitable interpretation and summary of the FOMC's 2025 strategic review is to say that it confirms this view.

Returning to the principles outlined in the FOMC's Original 2012 Strategy Statement, while less ambitious, is simpler and therefore more likely to succeed. These principles are consistent with key innovations in macroeconomic theory since the 1960s: the development of the natural rate hypothesis and the New Keynesian divine coincidence. They reflect in full the key ideas behind the design of the flexible inflation targeting strategies that, as Bernanke, Laubach, Mishkin, and Posen (1999) show and even Selgin, Lastrapes, and White (2012) willingly concede, delivered favorable results during the Great Moderation. They take a modern and correct view of the dual mandate that regards maintaining price stability as the key to – not as an alternative to – achieving maximum employment.

The arrival of a new Federal Reserve Chair in 2026 provides an opportunity to clean up

after the serious mistakes of recent years and to reset monetary policy strategy in a way that might prolong the institution's useful lifetime. This is low-hanging fruit: for the new Chair, reaffirming the Original 2012 Statement represents an easy way out.

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